



# Balancing the Budget in Bad Times

## PART 1

**Primary Treatments** for Reducing Cost and Enhancing Revenues in the Next 12–18 months



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Government Finance  
Officers Association

## **AUTHOR OF THIS REPORT**

**Shayne C. Kavanagh** is the Senior Manager of Research for GFOA, where he researches, writes, and consults on financial planning and risk analysis.

## **ACKNOWLEDGMENTS**

We'd like to thank the following people from PFM for their advice and consultation on preparing this report:

**David Eichenthal**, Managing Director

**Gordon Mann**, Director

**Vieen Leung**, Senior Managing Consultant

**Ryan McNeely**, Senior Managing Consultant

We'd like to thank the following retired public finance practitioners for reviewing the manuscript:

**Ann M. Carbone**, Retired Director Administration and Finance, City of Boston, Public Works

**Len Brittain**, Retired Executive Director, Corporate Finance, City of Toronto, Ontario

**Greg Devereaux**, Retired CEO, San Bernardino County, California

**Pall Gudgeirsson**, Retired City Manager, City of San Clemente, California,

We'd like to thank the following GFOA staff for reviewing the manuscript:

**Mike Mucha**, Deputy Executive Director/Director of Research and Consulting

**Matt Bubness**, Senior Manager

**Elizabeth Fu**, Senior Manager

**Ryan Lawler**, Senior Manager

**Katie Ludwig**, Senior Manager

**Mark Mack**, Manager

**Rob Roque**, Technology Services Manager



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## Introduction

Step 5 of the GFOA 12 steps to recover from financial distress is called “Near-Term Treatments.” Near-Term Treatments build upon the retrenchment techniques outlined in [Step 3](#) and in the GFOA paper “[Cash Is King](#).” Near-Term Treatments are the next level of treatment. They are things you can do to make progress on Near-Term Treatments—and see positive impact from—during the next year or so. Near-Term Treatments might be enough to resolve minor cases of financial distress. For severe cases, the Near-Term Treatments buy time for extensive changes, such as those suggested in [Step 8, Long-Term Treatments](#).

This paper is Part 1 of a two-part series and covers three topics:

- **First is the decision-making environment for Near-Term Treatments.** These are things leaders can do to shape the environment to help reach the best decisions about how, when, and why to use Near-Term Treatments.
- **Second is a two-part management system for using Near-Term Treatments.** These practices will help you get the most from your uses of the treatments.
- **Third are the “primary” Near-Term Treatments.** These are the lowest risk things you can do to balance your budget.

The second paper in our series discusses the riskier techniques and how to assess them.

### Diagnosis Before Treatment

[Step 4](#) of the recovery process is the “initial diagnosis.” You might wish to refer to this step along with reading this paper to help focus your use of the Near-Term Treatments.

## A Decision-Making Environment for Near-Term Treatments

The leaders of the financial recovery process can create a decision-making environment that encourages clear thinking and wise choices about Near-Term Treatments.

First, set up a “culture of frugality.” Everyone needs to understand that every dollar counts during severe financial distress, including expenditures and revenues. When they understand that, they will understand *why* Near-Term Treatments are necessary. When they understand why, they are likely to support it or even volunteer ideas for balancing the budget.

Start by announcing that being frugal is more important now than ever. Leaders need to *show* this so everyone *sees* that the culture change is serious. During the 2008 Great Recession, the mayor of one city went so far as to start mowing the grass in front of city hall himself to cut back on contracted maintenance costs! Of course, not every local government leader can or should start doing the yard work, but the mayor’s actions showed that he took the city’s spending seriously. There are other, less dramatic, ways local government leaders could send the same message. As the mayor’s actions imply, the message will be best received if people can see that leadership is taking the same bitter medicine that they are asking others to take.

Everyone needs to understand that **every dollar counts** during severe financial distress, including expenditures and revenues



Below are examples of actions leadership could take. Many of these will not generate huge savings, but they can be symbols that show that leadership is taking the situation seriously and expects everyone else to do the same.

- Agree to look at all programs and areas for cost savings and be clear that there are no “sacred cows.”
- Delay or cancel noncritical projects, purchases, or contracts. If these are projects or purchases that leadership was enthusiastic about, it sends an even more powerful message.
- Delay or cancel programs or events that are low priority or are no longer right for times of fiscal distress (e.g., office holiday parties or golf outings).
- Cut back on office equipment, especially the kind that might be seen as “perks,” like desktop printers when [electronic documents](#) are available or when/where shared printers are practical. Don’t exempt leadership positions from these frugalities.
- Delay or end the replacement of vehicles where this won’t lead to increases in maintenance costs beyond the available savings. Don’t exempt vehicles used by management staff or elected officials.
- Publicly acknowledge and celebrate people in the organization who find ways to cut costs in responsible and constructive ways.

However, culture change can’t stop there. Emphasizing simplistic frugality could lead to penny-wise and pound-foolish decision-making. Hence, a complement to frugality is valuing results over inputs and outputs. For example, improving public safety (a result) should be valued over the number of police officers (an input) or the number of patrols (an output). If inputs and outputs are the definition of “success,” then success will become difficult, if not impossible, in an environment of reduced resources. If results are the definition of success, then people can still succeed by finding creative and cost-effective ways to reach the result.

An emphasis on results can also support a second part of the decision-making environment: a willingness to spend money to save money. Sometimes it is necessary to spend money to spur cost-saving innovation. Examples of worthy expenditures could include labor-saving technology, bringing in outside technical expertise where staff members are missing a valuable skill, and using a consultant to validate financial position and condition to increase credibility and build the case to act. Leaders should put in place ways to make sure value is received for the money spent. This could include milestone or performance-based payments or gain-sharing arrangements with the vendor. It is equally important to have tools that apply to internal staff who often must create value in conjunction with the outside vendor. For example, buying new technology does not ensure greater efficiency. Staff must learn how to use new technology and include it in work processes.

After creating a culture of frugality and a willingness to spend money to save money, the next piece of the decision-making environment is how the financial crisis is framed. There are two basic ways a crisis could be framed: one is productive, and one is destructive. A “siege” or “bunker” mentality is destructive because it promotes conformity as people “hunker down” and try to preserve the status quo. This stifles innovation that will be needed to navigate the recovery process. The other frame is to see a crisis as an opportunity. A crisis produces “game-changing” events that can be used to break free of constraining past practices and habits. Traditional examples associated with a financial crisis include revenue losses or a bond rating downgrade. The COVID-19 pandemic creates new game-changing events, including the need to develop new emergency management processes, the need to work remotely, and the need to develop new and [efficient electronic processes to replace paper-based ones](#), and the opportunity for local governments to provide leadership to their communities.

Leadership can frame others’ perceptions. How the situation is defined is crucial. Sharing information helps avoid rigid reactions and may keep leaders and the organization open to solutions. How information

is shared is crucial to how it impacts the decision-making environment. Often, information shared during a financial crisis is not pleasant. GFOA’s research suggests a three-part rule for how to share bad news while maintaining the trust of the audience and optimizing their ability to act:

- **Be prompt.** This maximizes the time that decision-makers have to act on the information. This also preempts misinformation. It is harder to correct misinformation once it is out than to inoculate your audience against it by getting to them first. Promptness is supported by the transparency of financial information.
- **Be straight.** Don’t sugarcoat or go gloom and doom. If the audience believes they are being manipulated, leadership will lose credibility. People will take their cues from the ability of the organization’s leadership to portray reality.
- **Provide solutions.** Be honest about what is achievable. Give a *limited number of credible and achievable* options for how to address the problem. Research shows that too many options paralyze decision-making. And providing only one option gives no room for people to contribute to the discussion (other than rejecting the option).

Finally, the decision-making environment must ensure that the steps taken to reach a balanced budget in the short term are consistent with building a strong financial foundation for the community over the long term. Many short-term budget-balancing techniques have long-term consequences. If the local government over-relies on these types of solutions, it could find that it must endure lower grade but persistent financial stress after the crisis has passed. This is not conducive to making the community the best place it can be for its citizens or for making the local government resilient against future problems. A good example is delaying maintenance on capital assets. This increases future maintenance costs, may shorten the asset’s life, and may reduce benefit the public receives from the asset today. Incorporate [long-term planning and forecasting](#) into your recovery effort to make sure your Near-Term Treatments attempts don’t cripple your organization in the long run.

## A Two-Part Management System for Using Near-Term Treatments

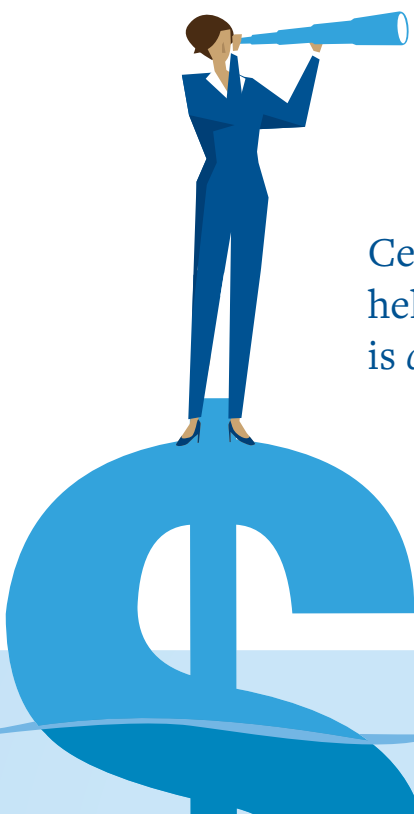
Putting management controls and practices in place will help you get the most out of using Near-Term Treatments. Good management does this by creating accountability for getting results and by managing the financial situation so that the organization has time and flexibility to apply Near-Term Treatments on its own terms.

The first part of the two-part management system is to secure financial position. Certain cost-cutting tactics like a short-term hiring freeze, reducing travel, or delaying payments to vendors can help stabilize financial position in the *short term*.<sup>\*</sup> However, certain management techniques can help make sure the local government is *consistently* stable. The second part is to be data driven and results oriented. This complements the advice we gave earlier to emphasize results in the decision-making environment. The management system brings this ideal into reality. **Exhibit 1** summarizes the subcomponents of these two parts. We will assess them in detail.

<sup>\*</sup> You can get more ideas for these kinds of short-term cost-cutting techniques in the GFOA paper "Cash is King."

**Exhibit 1** – Summary of the Two-Part Management System

Securing Financial Position
Cash flow forecasting and monitoring
Control system
Identify sources of liquidity
Be Data Driven and Results Oriented
Make managers manage
Give timely, accurate, and understandable information about spending
Help departments manage unexpected and unavoidable spending
A budget should be formulated in a way that is data driven and results oriented
Inventory your programs and determine their costs
Compile key indicators of financial condition and benchmarking data



Certain management techniques can help make sure the local government is *consistently* stable.

## Securing Financial Position

A basic technique for securing financial position is **cash flow forecasting and monitoring**. **Cash flow modeling** shows the flow of cash in and out, cash balances, and events that impact cash position, such as expenditures or revenues that occur during predictable points of the year. Cash flow forecasting and monitoring helps a local government understand its financial position for the next 12 to 24 months (or longer). This kind of analysis can pinpoint when Near-Term Treatments will need to be used or when bridge financing will be needed.

The **control system** helps you stay on track with your financial plans and forecasts. Review your control system for weakness in the following areas:

- **A good place to start is budgetary variance.** Monthly reporting of changes in real spending from planned spending reveals problem areas that need attention.
- **Review position controls** to make sure headcount is kept within limits and that vacant positions are not filled unless it is affordable.
- **Check purchasing controls.** Everyone needs to understand the importance of following regular procurement practices and using purchase requisitions and purchase orders. Purchase requisitions not only make sure that proper approvals have been met before the purchase, but they also pre-encumber or place a hold on funds in the budget. This allows financial managers to develop an accurate picture of their current financial position.
- **Consider capital project controls.** Are schedules adhered to and are estimates correct? For planned projects, are the operating/maintenance impacts of projects known and accounted for in financial plans? If not, the local government has created new, ongoing expenditures that it is not able to fund.
- **Don't overlook performance.** Cost reductions will have some negative impact on services at some point. Be sure to monitor performance against goals to see where performance is slipping. You can then decide where slippage might be acceptable in exchange for lower costs or where attention is needed to bring performance up to where it needs to be.

Cash flow forecasting and monitoring helps a local government understand its financial position for the next 12-24 months (or longer).



The last part of securing financial position is **identifying sources of liquidity**. Bridge financing is often needed for recovery. Therefore, you must find sources of cash that can serve as life support until Fiscal Near-Term Treatments have their effect. A government's reserve or "rainy day fund" is the obvious candidate. Here, decision-makers may need a better sense of **how they can responsibly use it** to address the current financial crisis. A reserve policy that is supported by a **risk analysis** informs decision-makers about other risks (e.g., natural disasters) that the reserve needs to cover. This will suggest how much of the reserve is available to use for the current downturn, without creating unacceptable risks with respect to future potential exposures (e.g., floods, hurricanes, etc.). You can also check for unnecessary balances in internal services funds and if they can be moved to the general fund to help deal with the crisis. A related strategy is to check internal charges or contingencies to see if they have gotten too high, thereby setting apart needed cash. Another source of liquidity is **internal borrowing**, where one fund borrows from another that has available resources. Policies should be created to make sure internal borrowing doesn't create long-term problems. Finally, federal or state/provincial programs or local banks could be sources of external liquidity, if favorable terms can be arranged.

Before leaving the subject of bridge financing, note that the recovery leadership must have a sense of where the bridge is leading to. The leadership must acknowledge that bridge financing can only be used for a limited time and be clear about the need for cost-reduction and revenue-raising measures.



## Be Data Driven and Results Oriented

The second part of the two-part management system is to be data driven and results oriented. A good starting point is to **make managers manage**. In some organizations, layers of control may have built up that add overhead costs and give limited value. Instead, put the onus on managers to do their jobs. To illustrate, in one Midwestern city, departments regularly exceeded their budget. The first response of the finance director was to assign budget analysts to each department (another layer of control) and the analysts would try to cajole the departments into following their budgets. Unsurprisingly, this did not work, so the finance director removed the analysts and told departments that they would manage their own budgets. If they went over, they would need to go before the city's ways and means committee in a public meeting and explain why they were over budget and what they were doing to fix it. They would then have to report back to the committee to report on how they were doing with staying within their budget. Unsurprisingly, this worked. Departments started to comply with their budgets almost immediately.

Next, look for places where an excessive and costly control system may have developed to compensate for lack of management accountability. The budget analyst case above is one example. Another might be spending controls enforced at the level of detailed line item. Instead of requiring managers to seek permission from budget authorities to move money between the line items for office supplies and equipment, allow them to move money between all line items in the “commodity” and “contractual services” categories and hold them responsible for staying within the total budget.\*

The finance office must help managers manage. Lack of good information for decision-making is a prime contributor to financial distress. Therefore, the finance office must **give timely, accurate, and understandable information about spending**. Many local government finance offices have had success with financial “dashboards” that give at-a-glance information on a

department's financial condition. Dashboards can vary, but three needed features are:

- *Timely information.* The information must be available soon enough so that managers can use it to change course quickly. ERP systems are capable of providing real-time budget reports that can communicate to managers the current status of available budget, expenditures, and encumbrances, along with spending data by contract, vendor, project, or grant.
- *Intuitive.* Visual indicators, like shapes or color coding, can convey the meaning of the numbers. For example, red might mean the budget is off track, yellow signifies dangerously close to off track, and green is on track.
- *Recognizes seasonal variation in spending.* A dashboard, like described here, requires breaking an annual budget into several guideposts. However, dividing the annual budget into 12 equal months may not work well for spending that has seasonal variation. An obvious example would be the snow removal budget in a cold-weather city or budget associated with tourist or vacation seasons. However, there are often seasonal patterns not obvious in local government spending. Use prior year actuals to discover seasonal patterns, and use them to break the annual budget into meaningful monthly guideposts.

These ideas bring us to what research has shown to be the most effective accountability system.\*\* People will be less likely to avoid accountability when: A) their actions are transparent (e.g., a dashboard that shows real spending compared to the plan); and B) their reputations are on the line (e.g., they will publicly be called to account for failing to stick to the plan).

That said, there will be times when some managers are unlucky, and circumstances make it impossible to stick to their spending plan. For example, first responders, public health staff, and others working to coordinate emergency operations during the COVID-19 crisis are dealing with an unprecedented

\* However, a government would not want to allow departments to move money from non-personnel to personnel expenditures because personnel expenditures are much harder to reduce in subsequent budgets.

\*\*For more information on this research, please consult: Shayne Kavanagh and Vincent Reitano. *Financial Foundations for Thriving Communities*. (Government Finance Officers Association: Chicago, IL). 2019.

The budget should be formulated in a way that is data driven and results oriented.



situation that most governments did not budget for. In these cases, the finance office must **help departments manage unexpected and unavoidable spending**. If managers are “punished” for bad luck, the logical response for them is to build more padding into the budgets. More padding across all departments adds up and makes it difficult to balance the government’s budget. Finance departments can help by setting up a central contingency and giving departments access to manage the unexpected and unavoidable. The finance department can also help departments explain unlucky variances from the plan to elected officials and the chief executive officer.

Accommodating bad luck is important during the COVID-19 pandemic. Departments may have workers fall ill (requiring overtime or substitutes to cover gaps) or have surges in demand (e.g., a greater number of emergency response calls). Finance staff must understand the financial implications of these unexpected changes and be ready to help departments manage them. This builds trust, and more trust will be valuable as the government makes its way through the recovery process.

So far, we have discussed being more data driven and results oriented in the management of day-to-day spending. The ultimate expression of a local

government’s financial management system is budget formulation. **The budget should be formulated in a way that is data driven and results oriented.** However, the traditional line-item budget is neither of those things. It is input and output oriented and driven mainly by historical precedent. The line-item budget has its advantages in a stable environment, but it does not have a good answer for how to cut back spending. Therefore, it is common to see across-the-board cuts where every department is asked to cut an equal amount. However, this fails to recognize that some spending is more important than other spending. It also misses the opportunity to shape and size local government for its new environment.

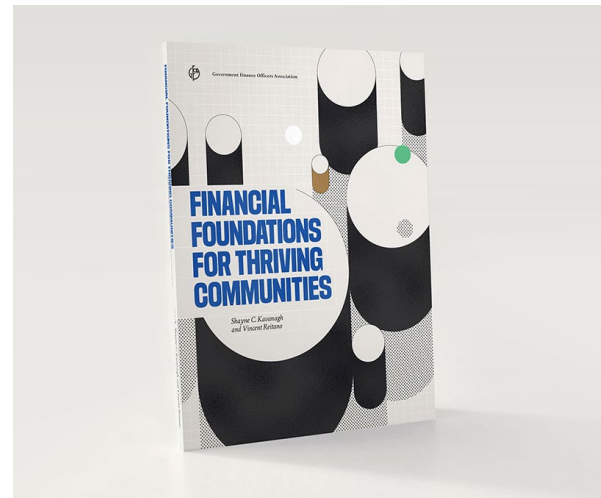
A good place to start with developing a new way of budgeting is to **inventory your programs and determine their costs**. A [program inventory](#) shows what services government is in the business of providing and at what cost. Creating the inventory may highlight unproductive or unnecessary programs that can be dropped with little controversy. Even if no such programs are found, an inventory and sense of program cost is a crucial prerequisite to wise budgeting in a cutback environment. Programs provide the ideal unit of analysis for deciding where cuts can be most strategically located. Two examples of successful

cutback budgeting methods that benefit from a thorough program inventory are [priority-based budgeting](#) and [zero-based budgeting](#).

Finally, compile key indicators of financial condition and benchmarking data, like employees per capita, overtime spending ratios, benefit costs, claims costs, etc. This can reveal areas of over-spending and generate ideas on how to reduce expenditures or increase revenues. Workload indicators might show where resources can be repurposed. For example, if the anticipated number of building inspections is expected to decline, perhaps inspector staffing levels need to decline as well.

Benchmarking data also gives tangible proof of the need to change. For example, in one city, benchmarking highlighted excessive benefit costs and revealed that terminated employees weren't being removed from the health care plan in a timely fashion (sometimes up to a three-month lag), costing thousands of dollars. As this example shows, benchmarking won't tell you where cost savings can be found, but it can highlight where you should be taking a closer look at your operations.

That said, be mindful of the limitations of benchmarking. You must ensure consistency in measurement across all organizations. For example, reported costs for programs can vary, depending on whether overhead expenditures, capital costs, or other indirect costs are included—or not included. There can also be contextual factors that frustrate “apples-to-apples” comparisons. This doesn't mean that benchmarking is not helpful. It means that it is thought of as a clue where saving might be available, not a certainty on where saving is available.



## Looking Ahead to a Strong Financial Foundation for Your Community

The GFOA 12-step recovery process is not intended just to help you deal with immediate financial distress; it is intended to put your government on the road to a strong financial foundation for the long term. GFOA's recent book, [Financial Foundations for Thriving Communities](#), describes the five pillars of a solid financial foundation. The advice we have given so far is designed to help you enact these five pillars. Below are some examples.

- **Establish a long-term vision.** Use cash flow forecasting and modeling to give people a sense of what to expect in the months ahead. Use long-term forecasting to make sure short-term recovery techniques don't cripple you in the long term.
- **Build trust and open communication.** Provide tangible symbols of leadership's commitment to “walking the talk” of a culture of frugality. Communicate bad news in a way that builds trust.
- **Use collective decision-making.** Work toward a data driven and results-oriented budget process.
- **Create clear rules.** Review your control system and clarify what the rules are.
- **Treat everyone fairly.** Help departments manage unexpected and unavoidable spending. Don't punish them for bad luck.

## The Primary Near-Term Treatments

Near-Term Treatments help you balance the budget; however, not all techniques are equal. They differ along many dimensions, such as long-term consequences, short-term cost benefits, impact on morale, and more. These differences add up to differences in risk. Some Near-Term Treatments are less risky while others have major potential drawbacks. In this paper, we will focus on the techniques with the lowest risk, which we call “primary” techniques.

The “primary” techniques mostly take sound, proven financial management practices and explain how they can be helpful during financial distress. Governments

shouldn’t wait for a crisis to use many of the primary techniques. They are things governments should be doing in good and bad times to maximize the value of taxpayer money. We have grouped primary techniques into the following categories: control personnel costs; enhance purchasing practices; review ongoing expenditures; better manage capital spending, equipment costs, and debt; and enhancing revenues.

Exhibit 2 overviews the techniques under each group. If your financial situation calls for more extensive help than the primary techniques can give, you can consult GFOA’s paper on cautionary techniques, available at [www.gfoa.org/ffa](http://www.gfoa.org/ffa).\*

**Exhibit 2** – Overview of Primary Near-Term Treatments

<b>Control Personnel Costs</b>	<b>Better Manage Capital Spending, Equipment Costs, and Debt</b>
Vacancy control	Better align capital financing with project schedules
Monitor and limit overtime use	Use long-term capital improvement planning to make better near-term decisions
Address health care costs	Develop an equipment replacement schedule
Review the use of consultants and temporary staff	Improve fleet management
<b>Enhance Purchasing Practices</b>	Review opportunities to refinance debt at lower interest rates
Many small opportunities add up	<b>Enhancing Revenues</b>
<b>Review Purchasing Practices</b>	Obtain federal and state/provincial aid
Audit routine expenditures	Examine fees for services
Investigate risk management practices and workers’ compensation claim patterns	New taxes with a strong connection to a desired service
<b>Pooling Resources and Partnering</b>	Improve billing and collection methods
Cooperate with other governments to achieve economies of scale	Audit tax revenue sources
Pool department resources	
Look for ways to partner with private organizations and citizens	

\* At the time of publication of this paper, the paper on cautionary techniques is anticipated to be available shortly after this paper.

### Primary Techniques versus Cash Is King

If you have read GFOA's paper [Cash Is King](#), you might notice some areas of overlap with the primary techniques. This is intentional. Some techniques in Cash Is King may not have been viable for your organization when you were early on in the recovery process. As you proceed deeper into the process, perhaps people are willing to reconsider ideas that they weren't ready for before.

## Control Personnel Costs

**Vacancy control.** Personnel is not only the largest area of cost for most local governments, once full-time employees are hired, reducing costs can only be made with strategies like layoffs, furloughs, or compensation reductions. Therefore, it is best to avoid hiring new employees for vacant positions unless the hiring is affordable and necessary. The government should require that any decision to fill a budgeted vacancy be subjected to review to find out if it is possible to put off hiring. The GFOA 12-Step recovery process advocates forming a recovery leadership team. This team could conduct the review. The review should consider the total cost of the position, the accuracy of the job description, and if the tasks of the proposed position could be addressed in a less costly way. The team should also discuss how not filling the position would impact the goals of the government. If department managers are not part of the recovery team, they should be brought into this discussion. The goal is to develop a rough understanding of the cost and benefit of each position and to prioritize positions across the local government, using the input of all departments.

The finance department can *support good decision-making* on vacancies by providing integrated finance and human resources information such as the cost of vacant positions, including salary, benefit, and equipment/training/onboarding costs associated with new hires.

Finally, it is worth noting that this technique differs from a hiring freeze. A hiring freeze is a blunt instrument where no positions are filled. Vacancy control uses data to make wise decisions about when to hire and when not to hire.

**Monitor and limit overtime use.** During the COVID-19 pandemic, overtime may be unavoidable given the needed public safety response and covering for ill employees. That said, taking steps to control overtime can limit the financial impact. First, analyze overtime costs. Are overtime costs excessive compared to regular wages? You can *benchmark* departments to similar departments in comparable local governments or other departments in your government. If there appears to be an opportunity to cut overtime, there are many possible avenues to find the savings:

- Can different schedules create less need for overtime or can part-time employees fill staffing gaps? Or is the overtime high enough that hiring junior full-time staff would be cheaper than paying more senior staff overtime? Look at the practices of governments with less overtime to see how they do it.
- Are there specific employees who consistently work overtime? Sometimes a few employees create a large part of the problem. It might be best to deal directly with these individuals.
- Are there special projects or services that consistently create overtime? Can the services be approached differently?
- Is there a clear personnel policy about when overtime is allowed and how it is approved? If not, there could be some reduction in overtime available by clarifying the policy.
- Could the financial recovery present a chance to adjust long-standing overtime policies or practices that are unsustainable now?

Overtime is an opportunity to *make managers manage*. For example, one county government created a single pool of funding from which overtime costs had to be drawn. All departments shared the funding pool rather than each having its own overtime account. Managers had to justify when they wanted to draw funds from the central account. This made every manager's action transparent. Their reputation was on the line because fellow department heads would be critical of proposals to use a disproportionate share of the pool.

The finance officer should *give timely, accurate, and understandable information* about overtime spending to help managers manage. The CFO of one city did a regular report comparing overtime by department year-over-year and budget versus actual. The report included the top 25 overtime earners citywide. As you might guess, departments did not want to find their employees on that list.

**Address health care costs.** Health care costs are a large and rapidly growing cost for many governments, making health care cost control vital to financial stability. However, during the COVID-19 pandemic, governments must exercise care in how they manage employee health care. First, employees may be sensitive to changes in health benefits. Second, some types of health plan reform can have the unintended result of employees seeking less medical care. This might be an especially bad time to run that risk. Here are some cost reduction techniques that have proven cost savings without reducing employee benefits. They require less effort than many other health care cost containment strategies.

- **Rebid existing insurances.** Especially if you have been with your current provider for a long time, there might be a chance for competitive purchasing to reduce costs. You can benchmark your rates against comparable local governments to get an idea if you can find a lower-cost insurance option.
- **Conduct an eligibility audit.** It is common for dependents or former employees to be carried on a government health plan even though they are not eligible or no longer qualify. Consider requiring spouses with coverage from another employer to use that plan as the primary plan for themselves, not the government's plan.

- **Put a section 125 or “cafeteria plan” in place.** Section 125 of the Internal Revenue Code allows employers to offer their employees a plan to receive certain health, dependent care, and other qualifying benefits on a pretax basis. This type of plan can produce tax savings for employees and employers.
- **Control the cost of prescription drugs.** Prescription drugs are a large and growing part of many government's health plans. Tiered prescription drug benefits encourage plan participants to choose generic drug options by charging different co-pay amounts depending on the tier the drug is in. Research has shown that educational efforts to make plan participants aware of the price differences between brand name and generic can improve the chances that participants will choose generic. Finally, mitigate the use of drug company coupons, which allow the employee to avoid a higher out-of-pocket charge for brand name drugs and shift the cost to the employer.
- **Hire an employee health care concierge service.** Such a service helps employees “shop” for health care, review bills, and recommend health care providers. Employees often value the help the service provides, and it can save the local government money by helping employees find cost-effective services.
- **Consider joining a health care cooperative purchasing pool.** Pooling with other employers provides economies of scale, purchasing power, and access to best practices that might not otherwise be available. For example, a purchasing pool may have already applied self-insurance and wellness practices that would take an individual government longer to set up.

#### **Review the use of consultants and temporary staff.**

Often, consultants become quasi-permanent staff because they become integrated into the organization or just out of habit. Consider if the consultant is the best value for your needs. Sometimes outsourcing is not the best method for providing service nor the cheapest. Sometimes former employees who are now retirees consult the local government, drawing two checks. Review the number of hours consultants provide, the

results you are getting, determine if you have become over-reliant on consultants, and see if there is a better approach.

It could be that there is a way to make greater use of consultants. A consultant or contract arrangement can be useful for part-time service. If the demand for service and/or your budget does not support the cost of full-time employees, perhaps a contractor could help fill the gap. For example, perhaps you hold a vacant full-time position open but use a part-time contractor to do the most important duties the full-time position would have done.

## Enhance Purchasing Practices

**Maintain and enhance competition.** Reevaluate vendors regularly. Too long with any provider may create complacency. This can be important for professional services as well as commodities. During an economic recession, some firms may be more interested in government contracts than before. Take steps to let them know about ways to get involved in your procurements. Consider relaxing requirements that are obstacles to new competitors. For example, if bid specifications are too limiting and allow only a handful of competitors to take part in the procurement, the government may be missing an opportunity.

**Better management of contracts.** Check your current contracts to see if you are taking advantage of prompt payment discounts. Governments in distress sometimes delay paying bills to conserve cash. As a result, prompt payment discounts may be sacrificed. Find out where such discounts are available and take advantage. This may require contacting suppliers and apologizing for past payment delays and promising to do better. Institute practices to avoid late payment penalties.

Consider opening and renegotiating your largest supplier contracts. In an environment of fiscal distress, vendors may be willing to lower prices to keep the business.

Develop multiyear contracts with vendors if they will offer and/or guarantee lower prices. This is true with construction-related activities, landscape, printing, and heavy equipment. Energy may be important from

Many small opportunities to enhance purchasing practices can add up to sizable cost reduction. Consider as many of the purchasing strategies as is practical.

a long-term perspective. With this strategy and the prior one, recognize that private firms are not as stable during a recession. Be ready to find another option if the vendor goes out of business during the term of the contract.

**Improving purchasing practices.** There are ways governments can save money by improving their purchasing practices:

- **Better management of bulk purchases.** Identify the items that make up the bulk of your purchasing and see if new quotes or suppliers can lower costs. Check purchases across the organization, not just by department. Encourage or require joint purchasing of similar items, especially office, janitorial, and communications supplies.
- **Standardize.** Develop standard specifications for commodity items. This will allow for better terms to be negotiated with vendors and could reduce operating costs down the line. For example, standardizing certain kinds of computers results in lower upfront costs and lower maintenance costs for the IT department.
- **Just-in-time purchasing.** Put in place just-in-time purchasing for products like office supplies, auto parts, and janitorial supplies to reduce or eliminate warehouse and inventory costs. Many vendors will provide ordering software that controls the approval process and allocates the bill per the organization's parameters at no cost. However, be aware of the need for some redundancy in emergency response supplies. A just-in-time approach can make a process fragile if the supply chain is interrupted.
- **P-cards.** P-cards have purchasing controls that give individuals the ability to make purchases. P-cards can help reduce the overhead that is often

involved in government purchasing and help set up a just-in-time purchasing environment. P-cards may also give rebates on purchases. These can add up to a material benefit for the local government across all P-card users.

- **Inspect incoming purchases.** Significant parts of orders received may be unneeded or unusable, increasing costs and cash out the door. Hold suppliers accountable for providing goods in the right quantity and in good quality.

### Review Ongoing Expenditures

**Audit routine expenditures.** Many routine expenditures are on “autopilot.” Over time, the costs can get off course. Savings can be had by auditing these charges and getting them back on course. Even if these audits do not result in huge savings, they help create a *culture of frugality*. Examples of expenditures to assess include:

- **Retiree pensions and benefits.** Make sure that only those entitled to benefits are receiving them. It is not unheard of, for example, that a new spouse of a deceased employee’s spouse is receiving health insurance and the pension payment at the government’s expense. Verify that health coverage is coordinated with Medicare and other available coverage. Use positive re-enrollment procedures.
- **Cell phones.** Consider replacing cell phones with IRS-compliant allowances budgeted at a lower level than annual cell cost, then requalify every user with stricter criteria. Negotiate pooled minute plans and compare rates with other agencies.
- **Vehicle allowances.** Some staff might be getting vehicle allowances and have access to government vehicles. There is not a strong case for having both.
- **Paper.** Large paper costs might indicate an opportunity to go paperless and save money. For example, many local governments have saved money by buying every board member a tablet PC and distributing materials for board meetings electronically, rather than printing. There are [other ways to save money by eliminating paper](#).

Many routine expenditures are on “autopilot.” Over time, the costs can get off course.



- **Purchasing habits for office and janitorial supplies.** Determine average use per month in each department (perhaps on a “dollar-per-employee basis”) and compare across the organization. Of course, some departments will use more than others, but this exercise can help set up a check for reasonable use.
- **Energy consumption.** Audit energy consumption to find where use is high and efficiency-enhancing technology or techniques might be useful. Solutions don’t need to be exotic or high tech to be effective. For example, better route planning can save fuel costs, and timers or motion sensors for lights can save electricity (especially for buildings that may be closed to the public or on reduced hours).
- **Publications, travel, and memberships by employee.** Review these to find out which are the most valuable to your organization and commit to those. Be selective about future purchases and look for the best value, including online options. Professional development is where staff can get the ideas and new capacities to help your organizations through the recovery, but some professional development provides more bang for the buck than others.
- **Audit for held funds.** Audit encumbrances and purchase orders for “held” funds. Investigate planned projects for which funds are carried over more than a year. Even six months without spending requires some explanation. If the project is not realistic, perhaps it should be canceled.



**Investigate risk management practices and workers' compensation claim patterns.** Insurance premiums and claims settlement can be a large expense. This can result from poor risk management practices, mismanagement, or even fraud. Start by *benchmarking* your experience for workers' compensation and liability claims against comparable local governments. If yours seem high, consider using a third party to help investigate, especially if staff do not have the expertise.

Also, look at insurance deductibles. These are often left alone for long periods when a review of claims history may show that a higher level of deductible can reduce premiums. This should be done with a consideration of the funding sources for claims that are greater than deductibles. For example, is there enough funds in an insurance or risk management reserve?

*A culture of frugality and getting results* can have tangible benefits when it comes to risk management. For example, a safety program can reduce injuries and accidents. This produces short- and long-term benefits, such as reduced claims and overtime (for shift coverage). Aggressive management of claims through challenge, negotiation, and mitigation can reduce future claims as well as payments for current claims.

Finally, improving risk management could be a way to get employees positively involved in combating fiscal stress by creating a safer work environment.

## Pooling Resources and Partnering

**Cooperate with other governments to achieve economies of scale.** In normal times, jurisdictions might be hesitant to give up the freedom that comes with going it alone. During a financial crisis, local officials may be more willing. Wherever possible, look to join existing cooperative arrangements, not start a new one. It will take far less effort to get on board with an existing arrangement. Good opportunities for cooperation include:

- **Joint purchasing.** Purchasing office supplies, vehicles, computers, and operating supplies is common. State contracts, council of government, or special government pricing schedules provided by major vendors give ready-made access to these

savings. Look at already established cooperatives or work with others to develop a multi-jurisdiction cooperative.

- **Joint health benefit purchasing.** Health insurance can be purchased with other agencies or through pooled insurance arrangements.
- **Risk pooling.** A larger, more diversified risk pool can provide savings on property, casualty, liability, and workers' compensation insurance.
- **Surplus inventory.** Share surplus inventory with other agencies or departments through an intranet or virtual warehouse system.
- **Other support services.** Besides those mentioned, there could be economies of scale in other support services like training, facilities management, etc.

**Pool department resources.** An opportunity that often pays big dividends is a shared budget contingency. This is an opportunity for risk pooling. To illustrate the potential, imagine that a government has 10 departments, each with a 10% chance of incurring an extra \$1 million in added costs. In the absence of risk pooling, each department builds \$1 million of "padding" into their budget to account for the risk, for a total of \$10 million in padding across the government. On average, however, the government will only incur \$1 million in unexpected costs each year (10 departments x 10% chance x \$1 million loss), resulting in \$9 million in unnecessary padding. The finance department can *help departments manage unexpected and unavoidable spending* by creating a shared budget contingency that can be used for unexpected and unavoidable spending. For this Near-Term Treatment to work, departments must trust that the finance department has their back and will help them access the contingency if needed.

Savings can often be had by sharing resources across departments. Often, personnel resources can often also be shared. Besides making an effective use of the government's limited resources, employees may value the chance to learn new skills. For example, perhaps a decrease in new construction reduces the demand for building inspectors. Perhaps these inspectors could offer support to the fire department in fire prevention programs or could take on a greater role in code enforcement.

**Look for ways to partner with private organizations and citizens.** There might be ways to work with private organizations in your community to help resources go further. For example, not-for-profit organizations might be able to help run or fund services like libraries, senior centers, recreation programs, cultural institutions, etc. This technique might be useful for noncore services that the government would otherwise be forced to cut. It helps reduce the sting of the service cut for clients. Governments might be able to support the nonprofit sector by providing in-kind donations of unused space or equipment to community service organizations.

Private citizens might also be willing to volunteer time to provide services, especially if their normal source of employment has slowed down. Be mindful that volunteers can present their own set of management issues. Workers' compensation and liability insurance must cover volunteers. During the COVID-19 pandemic, local governments might be limited in their ability to provide personal supervision of volunteers' efforts. Nevertheless, volunteers could have potential. During the 2008 Great Recession, one midsized city cut costs in the police department by using volunteers for support duties like courier service, chaplains, information desk, and more.



Though a capital improvement plan is a long-term commitment, it can provide near-term benefits too.

## Better Manage Capital Spending, Equipment Costs, and Debt

### Better align capital financing with project schedules.

In local governments with a capital program, capital projects have a huge impact on financial position. Improving capital project management and monitoring can provide near-term benefits. For example, it is common for the start of a project with approved budget authority to be delayed. Monitoring of delayed or canceled projects can free up funds for other uses. Project schedules may also be overly optimistic about how quickly a project will proceed, thereby overestimating the rate at which project funding would be drawn upon. This could result in bonds being issued before funding is required, in larger amounts than needed, and the potential for interest-earning rebates due to failure to meet bond arbitrage spend-down timing requirements. It could also result in premature allocations for pay-as-you-go financing projects, thereby tying up scarce funding.

### Use long-term capital improvement planning to make better near-term decisions.

Foremost, get a firm understanding of all capital projects on the horizon. Though a capital improvement plan is a long-term commitment, it can provide near-term benefits too.

- It will help the local government prioritize projects and focus on those that reduce costs. For example, a new asset may require fewer staff members to operate or have lesser maintenance requirements. A powerful tool to help think this through is [lifecycle costing](#).
- It can help you understand the operating and maintenance costs of new assets. Even if the cost of acquiring an asset doesn't impact the operating budget, its operating and maintenance costs will. The government should consider future operating and maintenance costs when deciding which capital projects to delay or cancel.
- It can help the government rethink its use of pay-as-you-go (i.e., cash) funding versus debt funding. Many local governments prefer to fund a large portion of their capital projects using current resources. There is a strong case for using more debt during a financial downturn. First, it will free up current resources for current operations.

Second, interest rates are often favorable during a downturn, so using debt is a savvy decision. Third, there is a good argument that using more debt is fairer to citizens. Using accumulated cash takes resources contributed by past and current citizens to buy an asset that will be enjoyed mostly by future citizens. A debt repayment schedule results in each generation of citizens covering some of the cost of the asset. A local debt management policy, including local measures of debt affordability, can help make sure the increased use of debt is done wisely.

- It will support cash flow forecasting and analysis. Cash flow analysis can estimate the timing of inflows and outflows based on historical characteristics of similar projects and align financing accordingly.
- Should the federal or state/provincial government make available funds to support infrastructure construction in local communities, your government will be ready to take part.

In addition to considering new assets, local governments should assess the condition of existing assets and facilities. This provides near-term benefits:

- It highlights the need to maintain the community's existing portfolio of assets. It might help convince decision-makers to direct limited resources away from buying new assets and toward maintenance and replacement, which will often be the savvy financial decision.
- It allows for better decisions about where maintenance and replacement could be delayed and where it can't.

#### **Develop an equipment replacement schedule.**

A replacement schedule for noncapital equipment such as computers and other small equipment will give forewarning of future cost increases in the *cash flow analysis*. A schedule will give the leadership team the ability to start thinking about where delaying replacement could be a viable option and where replacement is essential.

**Improve fleet management.** Examine the vehicles in the fleet to decide which ones are necessary. For

example, during the 2008 Great Recession, one small city convened a cross-departmental team to check its fleet practices. The team discovered that many vehicles seized by the police department had become part of the city's motor pool. These "free" vehicles added huge costs because they required maintenance, and departments expected to replace them at the end of their life. The team determined which vehicles were necessary for city business and stopped adding seized vehicles to the fleet (and started auctioning them off). Also, look for ways to better share vehicles across departments. Reducing the idle time of the vehicles in your fleet will mean you will need fewer total vehicles. Finally, optimize the replacement schedule for vehicles so that they are replaced before they start to cause the government excessive maintenance and repair costs.

#### **Review opportunities to refinance debt at lower interest rates.**

Economic downturns are often associated with lower interest rates. Take advantage to lower the cost of debt service with the help of qualified municipal advisors. Also, assess your risk associated with existing call or put options or variable interest debt. Warren Buffet famously referred to derivative products as "financial weapons of mass destruction," so know your exposure to potential damage.

#### **Enhancing Revenues**

**Obtain federal and state/provincial aid.** During the COVID-19 pandemic, local governments may be eligible for federal disaster relief funding and federal and/or state/provincial "stimulus" support. Understand the rules on how to access these funds and get the staff and/or consultant resources in place to secure the funding.

Beyond aid specific to the COVID-19 downturn, states sometimes have legal provisions for distressed local governments that can provide relief from costly regulations, give temporary grants and loans, and perhaps increase tax authority. Universities or quasi-governmental regional consortia may be able to provide low-cost technical support.

**Examine fees for services.** Fees are useful in helping local governments recover at least part of the cost of providing a service. Fees also help increase revenue

Taxpayers will often be supportive of taxes that have a perceived close link to the benefit received.



diversity, which is why local governments should set up fees for services where applicable and regularly adjust those fees to keep pace with inflationary growth. That said, fees will need to be weighed against impact. For example, local governments may need to explore fee waivers as a way of supporting small businesses. Some fees are counterproductive. For example, there is a strong case to suspend criminal justice fees and fine collection where collection rates are low. The fees and fines impede people’s ability to get through the criminal justice process.

To examine the potential for fees, make sure there are clear cost-recovery policy goals. Consider the definition of “cost.” Are only direct costs considered or fully allocated costs? Verify fees are meeting cost recovery goals. Compare your fees with comparable and area agencies to find out if they are reasonable. Check to see if your fee structure is having unintended consequences. For example, a fee might dissuade people from using a service that has communitywide benefits.

Fees that have a strong case for charging full cost include building, parking, recreation fees, and utilities.\* A common and often controversial area where fees are undercharged is fees to automobile and homeowner insurance companies for fire calls (especially false alarms), cleanup of hazardous materials, and nonemergency calls, despite the inclusion of such fees in most insurance policies. Other fees include those for services rendered to nonresidents or businesses such

as title searches, permit records, voter information, research, and “extras” on road construction or tree planting. Make sure that operating departments are incented to keep their fees updated, and include a policy for regular reviews. Central user fee policies are an important first step, but tactics like connecting operating budgets closely to program revenues can also help. Otherwise, departments may not give fees attention or may be disinclined to raise fees (e.g., for fear of upsetting supporting constituents).

**New taxes with a strong connection to a desired service.** New taxes are generally not something the public wants to pay during an economic downturn. However, sometimes there is a public service that is desired by the community, and they might be willing to pay to get it. Taxpayers will often be supportive of taxes that have a perceived close link to the benefit received. Furthermore, a service that benefits a narrow segment of the community is often paid for by members of that community. For example, many cities have set up a special tax area that assesses a tax for the upkeep of streetlights and sidewalks, which is paid for by local merchants. In another example, a large county set up snowplowing taxes for mountainous areas of the county that required this service, while desert regions did not pay the tax. In both examples, the taxpayers favored the tax because they value the service. That said, any successful new tax depends on the community believing the government is a credible steward of their money.

\* With the exception of making arrangements to accommodate utility customers who are facing financial hardship.

**Improve billing and collection procedures.** Improving billing and collection procedures is about receiving revenues that are rightly due to government. However, billing and collection must be sensitive to the hardships that citizens and local businesses face. A good place to start is to create a standardized process for how to collect revenues—including for cases of hardship. A consistent approach is the foundation of a fair approach. Next, make sure billing procedures are standardized for all receivables, including insurance claims, damage claims, rebates, and fees for service. Make sure nothing falls through the cracks due to lack of communication between departments and staff. Map out processes and find out where handoffs between departments occur and make sure these are working smoothly. Make sure this process identifies where cases of hardship are identified and how they can be routed to the right staff members to make arrangements with the affected ratepayer.

Other considerations to improve billing and collections include:

- Certain types of fees, billing, and collections may be more appropriate to relax than others during the COVID-19 crisis. Look at the fees your government charges and decide where relaxed procedures make the most sense.
- Consolidate billing and collections with a purpose unit to achieve standardization and consistency.
- Investing in technology or people to improve collections and billings could pay off. An example is parking meters, where better technology and/or more staffing can often increase revenues. This is an example of spending money to make money.
- Look for ways to improve information sharing between agencies. For example, property tax records can be confirmed against utility bills, other agencies' property tax records, and court records.
- Outsourcing aspects of collection to the private sector can provide financial benefit. But beware that the collection methods used in the private sector may not treat constituents in a way that reflects well on government, especially during an economic downturn when many people are vulnerable. For example, a tax lien sale sells tax liens to private investors and converts a nonliquid asset to a liquid

Create a standardized process for how to collect revenues—including cases of hardship. A consistent approach is the foundation of a fair approach.



one; however, it could also result in a citizen losing his/her primary residence.

- Consider an amnesty program for past due fees. Done well, an amnesty program brings in revenues and gives ratepayers a chance to remove a financial burden for a lower cost. To be effective, amnesty programs should be rarely offered and vigorously enforced.

**Audit tax revenue sources.** Many revenues are remitted to the government based on the self-reporting of tax liability. Often, liability is underreported or reported as due to the wrong jurisdiction (e.g., sales tax for a large retailer on the border of the community). Auditing can find new revenues. Personal property assessments beyond the minimum requirements of state law, sales taxes, and utility taxes are examples of revenues where audits can pay off. This is a fair way to raise revenues because it is meant to make sure that those liable are paying their rightful share. That said, the revenue available can vary depending on factors like the number of payers and the complexity of tax. For example, utility taxes are usually paid to the government by a small number of utility companies (not by each constituent), thereby limiting the number of payers to audit. Also, an audit can be time consuming.

## Conclusion

The primary Near-Term Treatments are your lowest risk options to reduce costs and enhance revenues in the near term. By creating the right decision-making environment and putting in place the right management disciplines, you can get the most out of these techniques. However, the primary techniques alone might not be enough to address your local government's financial challenges. You can continue to the second paper in our series that discusses riskier treatments. Even then, the foundation offered by this paper will help you mitigate the risks as you work through the recovery.



For more information about GFOA's Fiscal First Aid program, visit [www.gfoa.org/FFA](http://www.gfoa.org/FFA).



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203 N. LaSalle Street, Suite 2700, Chicago, IL 60601  
312-977-9700 | [www.gfoa.org](http://www.gfoa.org)